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C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 000068

SIPDIS

STATE FOR EEB/IFD/OMA BRIANA SAUNDERS  
ALSO FOR NEA/ELA AND NEA/RA

E.O. 12958: DECL: 01/20/2020

TAGS: FAID ECON EFIN PGOV KCOR LE

SUBJECT: LEBANON: FY2010 PROHIBITION ON ASSISTANCE TO  
CENTRAL GOVERNMENTS WHOSE BUDGETS ARE NOT TRANSPARENT

REF: A. 09 BEIRUT 692

1B. BEIRUT 35

1C. STATE 1923

1D. 09 BEIRUT 1229

1E. 09 BEIRUT 994

1F. 09 BEIRUT 899

Classified By: Ambassador Michele J. Sison for reasons  
1.4 (b) and (d).

11. (C) Introduction: In Lebanon, lack of fiscal transparency is more than a failure of the capacity of the state. It is at the center of a government system that is designed to be opaque so as to serve the interests of the leaders of the political class, rather than the needs of citizens (septel). Because of this, Embassy Beirut has placed fiscal transparency at the center of its diplomatic strategy (ref A), engaging political leaders at the highest levels on the need for more transparency. The new Lebanese government has indicated that it has the will to tackle some of these issues (Ref B), and parliamentarians are playing a role in bringing some abuses to light.

12. (SBU) In addition to political engagement, we are coordinating with other donors to provide technical assistance to Lebanon's finance ministry, under the guidance of a new minister who appears committed to change. Lebanon's budget is not a transparent document and given the political equities involved, it will take years to bring it up to international standards. Nonetheless, the process is beginning, and we will continue our engagement on the issue at the political and technical levels in 2010 and beyond.  
End Introduction.

13. (SBU) The following are responses to questions presented in ref C:

-- Is the central government expected to receive funding under the FY 2010 SFOAA?

Yes. Helping the Lebanese build credible state institutions is the USG's top policy priority, and our assistance reflects this. Lebanon is slated to receive approximately \$100 million in FMF funding, \$20 million in INCLE, \$6.8 million in NADR, and \$2.5 million in IMET in 2010, most of which constitutes assistance to the central government under the definition given in ref A. Additionally, part of Lebanon's \$109 million in ESF assistance will fund programs supporting the justice, economy, and education ministries, among others.

-- Is the host country's annual national budget publicly available?

Lebanon's parliament has not passed a budget since 2005, and the public accounts have not been closed since then, but the proposed budgets from 2006-2009, as well as budgets passed before 2006, are available on the finance ministry website at [www.finance.gov.lb/public\\_finances/budget](http://www.finance.gov.lb/public_finances/budget). These budgets are supplemented by reports, prepared by the GOL-funded UNDP team at the ministry, explaining the rationale behind the budget and significant changes from previous years.

-- Are incomes and expenditures included in the publicly-available budget?

Incomes and expenditures are included the budget, though their breakdown is unclear. In one example, telecom revenues passed to the treasury are represented by one line item in the budget, without information on their composition. Subsidies to the state-owned electricity company are accounted for as a "transfer," without an indication of the funds' final disposition.

-- What is post's assessment of the extent to which the publicly available budget accurately reflects actual government incomes and expenditures?

A large number of what the GOL calls "public institutions" (totaling 108 bodies) are excluded from the budget entirely or accounted for in the budget with a simple line item, such as "support to public hospitals." The Council for Development and Reconstruction (CDR), the government agency responsible for infrastructure planning and contracting,

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receives a modest allocation in the budget, primarily for salaries, but most of its spending -- which it undertakes with non-U.S. donor funds -- is not included at all.

-- Have there been any events since the 2009 review that may have affected fiscal transparency? (e.g. a coup)

No.

-- Since last year's review, what efforts has the host government undertaken to improve fiscal transparency? What progress has been made, pursuant to the 2009 demarches on the subject (reftels)?

We delivered the demarches to a caretaker government that was in place for five months of 2009 following the June 2009 parliamentary elections. The new government took power on December 10, 2009, and has shown early indications of a willingness to reform. Reftels highlight some of the GOL efforts to improve its record on transparency. Notably, the finance ministry has signed an agreement with the World Bank under which the Bank will provide three advisors to the ministry to work on improvements in budget preparation and execution. World Bank Lead Country Economist Sebnem Akkaya told econoff one of the Bank's top priorities in the program is bringing more spending into the budget, including infrastructure spending (i.e., the CDR). Meanwhile, both the previous finance minister, Mohamad Chatah, and the current minister, Raya el-Hassan, have indicated they would specify in the budget that transfers to the electricity company are in fact subsidies, while new Telecoms Minister Charbel Nahas took extra time in his budget preparation for 2010 to provide a more thorough breakdown of telecom revenues passed to the state.

-- USG/Post actions and strategy to promote such efforts, including pursuant to reftels;

As indicated in reftels, post has engaged the GOL repeatedly on the importance of fiscal transparency. In addition, as a result of repeated meetings of the Ambassador and USAID mission director with the previous and current finance ministers, a Department of Treasury Office of Technical

Assistance (OTA) team visited Beirut in early January to assess opportunities for assistance beyond the World Bank program. Based on the suggestion of Minister Hassan, the team identified an office in the ministry of finance, the public accounting directorate, that is responsible for closing government accounts, particularly those of the public institutions mentioned above. With USAID funding, OTA plans to place a resident advisor in the ministry to help the long-neglected directorate fulfill its mandate, which should bring much needed transparency to Lebanon's fiscal management and prepare the way for incorporating more public institutions in the budget.

-- Any resulting progress;

Because of the long government formation process, the GOL has not yet had an opportunity to act on Post's suggestions. However, Minister Hassan's embrace of the proposed USAID-funded OTA project is a good sign of political will, a necessary ingredient in any progress on reform in Lebanon.

-- An updated 2010 action plan for Post efforts to work with the host government to improve fiscal transparency and promote graduation out of the need for a waiver.

Post will continue to engage the GOL at the highest political levels on the need to improve fiscal transparency, and the OTA program will offer an opportunity for the USG to nudge the GOL from within, by building capacity and drawing political attention to the work of the public finance directorate. We will also coordinate closely with other donors on both political messaging to the GOL and assistance priorities.

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